

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE
COMMISSIONER**



FINANCIAL EXAMINATION

OF

**MASON COUNTY TITLE INSURANCE COMPANY
SHELTON, WASHINGTON**

**NAIC CODE #50962
DECEMBER 31, 2004**

Mason County Title Insurance Company
Order No. G06-55
Exhibit A

SALUTATION

Seattle, Washington
September 20, 2006

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building
302-14th Avenue SW
Olympia, WA 98504

Dear Commissioner Kreidler:

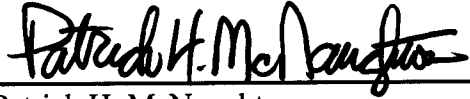
In accordance with your instructions and in compliance with the statutory requirements of RCW 48.03.010, an association examination was made of the corporate affairs and financial records of

Mason County Title Insurance
Company
of
Shelton, Washington

hereinafter referred to as "MCTIC" or "the Company", at its home office located at 130 W. Railroad, Shelton, Washington. This report is respectfully submitted showing the condition of the Company as of December 31, 2004.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Mason County Title Insurance Company of Shelton, Washington. This report shows the financial condition and related corporate matters as of December 31, 2004.

A handwritten signature in black ink, reading "Patrick H. McNaughton", written over a horizontal line.

Patrick H. McNaughton
Chief Examiner

A handwritten date "9-20-06" in black ink, written over a horizontal line.

Date

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SCOPE OF EXAMINATION

This examination covers the period January 1, 2000 through December 31, 2004 and comprises a comprehensive review of the books and records of the Company. The examination followed the statutory requirements contained in the Washington Administration Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report.

INSTRUCTIONS

The examiners reviewed the Company's filed 2004 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP), as contained in the NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review.

1. Audited Financial Statements

The Company does not have audited financial statements. It is basing this omission on WAC 284-07-100(2) which states that if the Company has less than \$1 million in premiums and less than 1,000 policyholders, it is exempt from audited financial statements. Since most of MCTIC's policies are old and possibly inoperative because of property ownership changes, the Company does not know how many policyholders it has. Therefore, it can not prove that it qualifies for this exemption. It would be beneficial to investigate methods for determining the number of active policyholders, since this would resolve the question of audited financial statements. It could also be an aid in determining the remaining exposure for previously-issued policies.

In accordance with WAC 284-07-100(2), until such time as it can prove it has less than 1,000 policies, the Company is instructed to obtain an annual audit of its financial statements or to obtain a specific OIC exemption from this requirement.

2. NAIC Annual Statement Preparation

In preparing its 2005 NAIC Annual Statement, MCTIC did not follow the NAIC Annual Statement Instructions. According to the By-Laws, the stockholders elect trustees at MCTIC's annual meeting, but the Company does not disclose these trustees as required in the NAIC Annual Statement Instructions on the Jurat page.

The Company is instructed to comply with RCW 48.05.250 which requires the filing of its financial statements in the general form and context approved by the NAIC, and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.

COMMENTS AND RECOMMENDATIONS

1. Investment Income

The Company has ten bank accounts that average 1% interest (even though the Board of Trustees [BOT] was told the interest would be 3%). Since interest is the Company's only income, excess funds should be invested at the highest interest rate obtainable and which is commensurate with adequate safety and liquidity.

It is recommended that the Company research the placement of available funds in safe instruments which pay higher rates of return while providing adequate liquidity for paying claims and other liabilities.

2. Fidelity Bond and Other Insurance

The Company does not have any insurance. In order to protect the policyholders, it would be advisable to consider obtaining a fidelity bond and to study any other significant exposures which might benefit from property or liability protection.

For the protection of the policyholders, it is recommended that the Company study the need for fidelity, property, and liability insurance.

COMPANY PROFILE

Company History

The Company was incorporated on September 7, 1909 as a title insurance company under the laws of the state of Washington and commenced business on September 7, 1909.

Territory and Plan of Operation

The Company is licensed only in the state of Washington. The Company ceased writing business effective December 31, 1998.

Growth of Company

As reported in its filed NAIC Annual Statements, the Company's growth is illustrated below.

	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>
2000	\$867,434	\$64,832	\$802,602
2001	861,930	65,704	796,226
2002	845,180	40,569	804,611
2003	835,864	36,099	799,765
2004	831,826	47,250	784,576

	<u>Net Investment Income</u>
2000	\$41,412
2001	31,092
2002	12,113
2003	7,140
2004	7,074

Ownership and Affiliated Companies

Company	Percent of Ownership	Owners
Mason County Title Insurance Co	100%	David C. Bayley and Joan V. Bayley
Mason County Title Company – Agent of Stewart Title Guaranty Co	100%	David C. Bayley and Nancy R. Bayley
Northwest Contract Collections	100%	David C. Bayley and Nancy R. Bayley

Intercompany Contracts

There are no intercompany contracts.

MANAGEMENT AND CONTROL

Board of Directors

In the 2004 NAIC Annual Statement, MCTIC did not report any Board of Directors' members on its jurat page. However, the Company has the following trustees who fulfill the same role as directors: Phil C. Bayley, David C. Bayley and Nancy R. Bayley, (See Recommendation number 3).

Officers

As of December 31, 2004, the officers were:

Phil C. Bayley	President
Nancy R. Bayley	Secretary/Treasurer
David C. Bayley	Vice President

Committees

The Company does not have any committees.

Conflict of Interest

The Company does not have a policy statement or questionnaire to disclose potential conflicts of interest by the officers or key employees.

Fidelity Bond and Other Insurance

The Company does not have a fidelity bond or any other insurance (See Recommendation number 2).

Officers', Employees', and Agents' Welfare and Pension Plans

The Company has no welfare or pension plans.

CORPORATE RECORDS

The Corporate records were reviewed for the period under examination. All trustee meetings were conducted with a quorum present. There have been no changes to the Articles of Incorporation or By-Laws during the examination period.

UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The Company ceased writing business on December 31, 1998. It maintains a statutory premium reserve, which is calculated according to RCW 48.29.120(2) and SSAP A-628.

REINSURANCE

The Company does not have any assumed or ceded reinsurance.

STATUTORY DEPOSITS

The Company has the following Statutory Deposits:

<u>State</u>	<u>Type</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Washington	CD	\$25,000	\$25,000	\$25,000

ACCOUNTING RECORDS

The Company maintains its accounting records on a modified GAAP accrual basis of accounting and adjusts to the Statutory Accounting Practices (SAP) basis for NAIC Annual Statement reporting. The Company is not audited by a certified public accounting firm. The Company's accounting procedures were reviewed during the planning and testing phase of the examination and the exceptions are noted.

SUBSEQUENT EVENTS

None

FINANCIAL STATEMENTS

Assets, Liabilities, Surplus and Other Funds
Summary of Operations
Reconciliation of Surplus

**MASON COUNTY TITLE
INSURANCE COMPANY
ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2004**

	<u>BALANCE PER COMPANY</u>	<u>REF</u>	<u>EXAM ADJ</u>	<u>BALANCE PER EXAMINATION</u>
<u>ASSETS</u>				
Cash	\$831,826			\$831,826
TOTAL ASSETS	<u>831,826</u>			<u>831,826</u>
<u>LIABILITIES</u>				
Loss reserve	\$6,000			\$6,000
Premium reserve	7,692			7,692
Statutory reserve	25,000			25,000
Other expenses due or accrued	<u>8,558</u>			<u>8,558</u>
TOTAL LIABILITIES	<u>47,250</u>			<u>47,250</u>
<u>SURPLUS AND OTHER FUNDS</u>				
Capital stock	5,000			5,000
Gross Paid in and contributed	18,208			18,208
Unassigned funds (surplus)	<u>761,368</u>			<u>761,368</u>
Surplus	<u>784,576</u>			<u>784,576</u>
TOTAL LIABILITIES, SURPLUS AND OTHER FUNDS	<u>\$831,826</u>			<u>\$831,826</u>

**MASON COUNTY TITLE
INSURANCE COMPANY
OPERATIONS AND INVESTMENT EXHIBIT
STATEMENT OF INCOME
DECEMBER 31, 2004**

	<u>BALANCE PER COMPANY</u>	<u>REF</u>	<u>EXAM ADJ</u>	<u>BALANCE PER EXAMINATION</u>
OPERATING INCOME				
Losses and loss adjustment expenses incurred	\$6,000			\$6,000
Operating expenses incurred	<u>19,667</u>			<u>19,667</u>
Total Operating deductions	<u>25,667</u>			<u>25,667</u>
Net operating loss	<u>25,667</u>			<u>25,667</u>
INVESTMENT INCOME				
Net Investment Income	7,074			7,074
Net Investment Gain (loss)	<u>7,074</u>			<u>7,074</u>
OTHER INCOME				
Net loss, before federal income taxes	(18,593)			(18,593)
Net Loss	(18,593)			(18,593)
CAPITAL AND SURPLUS ACCOUNT				
Surplus as regards policyholders, previous year	<u>799,765</u>			<u>799,765</u>
Net Loss	(18,593)			(18,593)
Aggregate write-ins	<u>3,404</u>			<u>3,404</u>
Change in surplus for the year	<u>(15,189)</u>			<u>(15,189)</u>
Surplus as regards policyholders, Dec 31, current year	<u>\$784,576</u>			<u>\$784,576</u>

**MASON COUNTY TITLE
INSURANCE COMPANY
RECONCILIATION OF SURPLUS
FOR THE EXAMINATION PERIOD**

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Capital and Surplus, December 31, previous year	<u>\$799,765</u>	<u>\$804,611</u>	<u>\$796,226</u>	<u>\$802,602</u>	<u>\$791,235</u>
Net income	(18,593)	(9,294)	3,035	(12,263)	4,838
Change in statutory premium reserve	3,404	4,448	5,350	5,887	6,529
Net change in capital and surplus for the year	<u>(15,189)</u>	<u>(4,846)</u>	<u>8,385</u>	<u>(6,376)</u>	<u>11,367</u>
Capital and surplus December 31, end of year	<u><u>\$784,576</u></u>	<u><u>\$799,765</u></u>	<u><u>\$804,611</u></u>	<u><u>\$796,226</u></u>	<u><u>\$802,602</u></u>

NOTES TO FINANCIAL STATEMENTS

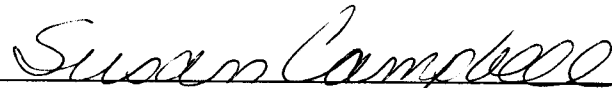
The Company has no special consents, permitted practices, or orders from the state of Washington.

ACKNOWLEDGEMENT

The cooperation and assistance of the officers and employees of the Company during the examination are hereby acknowledged.

In addition to the undersigned, John Gaynard, CFE, CPA, CPCU, Life and Disability Supervisor, and Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner, from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,

A handwritten signature in cursive script, reading "Susan Campbell", is written over a horizontal line.

Susan Campbell, CPA, AFE, FLMI
Examiner in Charge
State of Washington

AFFIDAVIT

State of Washington)
) ss
County of King)

Susan Campbell, being duly sworn, deposes and says that the foregoing report subscribed by her is true to the best of her knowledge and belief.

Susan Campbell
Susan Campbell, CPA, AFE, FLMI
Examiner in Charge
State of Washington

Subscribed and sworn to before me on this 20th day of September, 2006.

Colleen Jansen
Notary Public in and for the
State of Washington

